Case 3C—Limitation on Immediate Recognition of Transition Obligation

443. Company F plans to adopt this Statement for its financial statements for the year beginning January 1, 1993. Company F's postretirement defined benefit health care plan is presently accounted for on a pay-as-you-go basis.

444. On January 1, 1991, Company F acquires Company G and accounts for the business combination as a purchase pursuant to APB Opinion No. 16, Business Combinations. Company G has a postretirement health care plan that Company F agrees to combine with its own plan. Company F assumes the accumulated postretirement benefit obligation of Company G's plan as part of the acquisition agreement. However, at the date the business combination is consummated, no liability is recognized for the postretirement benefit obligation assumed.

445. On July 3, 1992, Company F amends its postretirement benefit plan to provide postretirement life insurance benefits to its employees; employees are given credit for their service prior to that date. At the date of the plan amendment, prior service cost is estimated at $250,000. Average remaining years of service to the full eligibility dates of the plan participants active at the date of the amendment is 25 years.

446. At December 31, 1992, the accumulated postretirement benefit obligation is $2,000,000; there are no plan assets or accrued postretirement benefit cost. On January 1, 1993, when Company F adopts this Statement, it elects to recognize immediately the transition obligation. Because the plan amendment occurred after December 21, 1990, Company F must treat the effect of the amendment as unrecognized prior service cost (paragraph 111). Company F elects to recognize prior service cost on a straight-line basis over the average remaining years of service to full eligibility of the active plan participants as permitted by paragraph 53. Therefore, at December 31, 1992, the remaining prior service cost to be recognized over those plan participants' *future* years of service to their full eligibility dates is $245,000 ($250,000 less $5,000 retroactively recognized for the period from July 3, 1992 to December 31, 1992).

447. Because the purchase business combination also occurred after December 21, 1990, Company F must retroactively reallocate the purchase price to the assets acquired and obligations assumed to reflect the postretirement benefit obligation assumed. Company F determines that the postretirement benefit obligation it assumed with the acquisition of Company G, measured as of the date of the acquisition, was $800,000. The cumulative effect on statements of income for the period January 1, 1991 to December 31, 1992 is the amortization of additional goodwill ($40,000), which Company F recognizes in 1993 as part of the effect of the change in accounting (paragraph 111).

448. On January 1, 1993, Company F recognizes on its statement of financial position goodwill of $760,000 and an obligation for postretirement benefits of $1,755,000 ($2,000,000 unfunded postretirement benefit obligation less $245,000 unrecognized prior service cost). The difference of $995,000 ($1,755,000 - $760,000) is recognized in the statement of income as the effect of an

accounting change and comprises the following:

Consequences of events affecting accumulated postretirement benefit obligation other than the business combination and plan amendment	$950,000
Amortization of goodwill for prior purchase business combination	40,000
Amortization of prior service cost for prior plan amendment	5,000
Effect of accounting change	$995,000

The unrecognized prior service cost ($245,000) will be recognized on a delayed basis over the remaining 24.5-year amortization period for the plan participants active at the date of the amendment.

Illustration 4—Plan Amendments and Prior Service Cost

449. This Statement requires that, at a minimum, prior service cost arising from a plan initiation or plan amendment be recognized by assigning an equal amount of the prior service cost to each remaining year of service to the full eligibility date of each plan participant active at the date of the plan initiation or amendment (paragraph 52). Consistent use of an alternative amortization method that more rapidly reduces the unrecognized prior service cost is permitted (paragraph 53).

450. Company H has a postretirement benefit plan that provides benefits to employees who render at least 20 years of service after age 35. On January 2, 1994, Company H amends its postretirement benefit plan to increase the lifetime cap on benefits provided, resulting in unrecognized prior service cost of $750,000 (the increase in the accumulated postretirement benefit obligation as a result of the plan amendment). Amortization of that unrecognized prior service cost is illustrated in Cases 4A and 4B (paragraphs 451-454).

Case 4A—Equal Amount Assigned to Each Future Year of Service to Full Eligibility Date

451. The determination of the amortization of prior service cost is based on remaining years of service prior to the full eligibility date of each plan participant active at the date of the amendment but not yet fully eligible for benefits. (Refer to the glossary for the definition of plan participant.) Future years of service of active employees who are not plan participants are excluded. Each remaining year of service prior to the full eligibility date of each active plan participant not yet fully eligible for benefits is assigned an equal share of the prior service cost (paragraph 52). Thus, the portion of prior service cost to be recognized in each of those future years is weighted based on the number of those plan participants expected to render service in each of those future years.

452. At the date of the amendment (January 2, 1994), the Company H has 165 employees of whom 15 are fully eligible for benefits, 10 are under age 35, and 40 are expected to terminate before becoming eligible for any benefits. Because the 10 employees under age 35 have not met the age requirements to participate in the plan (only service after age 35 is credited) and 40 employees are not expected to receive benefits under the plan, those 50 employees are not considered to be plan participants and, therefore, are excluded from the calculation. The 15 fully eligible plan participants also are excluded from the calculation because they do not have to render any additional service to earn the added benefits. The remaining 100 employees have not yet earned the full amount of the benefits they are expected to earn under the plan. Those employees are expected to become fully eligible for those benefits over the next 20 years. Their remaining years of service to full eligibility for benefits is the basis for amortization of the prior service cost.

453. The following schedules illustrate the calculation of the expected remaining years of service prior to full eligibility (Schedule 1) and the amortization schedule for recognizing the prior service cost (Schedule 2). Employees hired after the date of the plan amendment or who attain age 35 after the date of the plan amendment do not affect the amortization nor do revised estimates of remaining years of service, except those due to a curtailment.

Schedule 1—Determination of Expected Remaining Years of Service Prior to Full Eligibility as of January 2, 1994

Indiv.	Remaining Years or Service Prior to Full Elig.	Year 1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2089	2010	2011	2012	2013	Total Remaining Years of Service Prior to Full Elig.
A1-A4	1	4																				4
B1-B6	2	6	6																			12
C1-C5	3	5	5	5																		15
D1-D5	4	5	5	5	5																	20
E1-E7	5	7	7	7	7	7																35
F1-F5	6	5	5	5	5	5	5															30
G1-G9	7	9	9	9	9	9	9	9														63
H1-H7	8	7	7	7	7	7	7	7	7													56
I1-I5	9	5	5	5	5	5	5	5	5	5												45
J1-J5	10	5	5	5	5	5	5	5	5	5	5											50
K1-K4	11	4	4	4	4	4	4	4	4	4	4	4										44
L1-L8	12	8	8	8	8	8	8	8	8	8	8	8	8									96
M1-M8	13	8	8	8	8	8	8	8	8	8	8	8	8	8								104
N1-N5	14	5	5	5	5	5	5	5	5	5	5	5	5	5	5							70
O1-O4	15	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4						60
P1-P3	16	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3					48
Q1-Q4	17	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4				68
R1-R3	18	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3			54
S1-S2	19	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2		38
T1	20	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	20
Service Years Rendered		100	96	90	85	80	73	68	59	52	47	42	38	30	22	17	13	10	6	3	1	932
Amortization Fraction		100/932	96/932	90/932	85/932	80/932	73/932	68/932	59/932	52/932	47/932	42/932	38/932	30/932	22/932	17/932	13/932	10/932	6/932	3/932	1/932	

Note: To determine total remaining service years prior to full eligibility, consideration is given to the remaining number of years of service to the full eligibility date of each plan participant or group of plan participants active at the date of the plan amendment who is not yet fully eligible for benefits. For example, in 1994, individuals A1-A4 meet the company's age and service requirements for full eligibility for the benefits they are expected to receive under the plan. Although it may be expected that those employees will work beyond 1994, benefits are not attributed to years of service beyond their full eligibility date (paragraph 21). Refer to Case 4B, paragraph 454, for less complex amortization approaches.

Schedule 2—Amortization of Unrecognized Prior Service Cost

Year	Beginning-of-of-Year Balance	Amortization Rate	Amortization	End-of-Year Balance
1994	$750,000	100/932	$80,472	$669,528
1995	669,528	96/932	77,253	592,275
1996	592,275	90/932	72,425	519,850
1997	519,850	85/932	68,401	451,449
1998	451,449	80/932	64,378	387,071
1999	387,071	73/932	58,745	328,326
2000	328,326	68/932	54,721	273,605
2001	273,605	59/932	47,479	226,126
2002	226,126	52/932	41,845	184,281
2003	184,281	47/932	37,822	146,459
2004	146,459	42/932	33,798	112,661
2005	112,661	38/932	30,579	82,082
2006	82,082	30/932	24,142	57,940
2007	57,940	22/932	17,704	40,236
2008	40,236	17/932	13,680	26,556
2009	26,556	13/932	10,461	16,095
2010	16,095	10/932	8,047	8,048
2011	8,048	6/932	4,828	3,220
2012	3,220	3/932	2,414	806
2013	806	1/932	806	0

Case 4B—Straight-Line Amortization over Average Remaining Years of Service to Full Eligibility Date

454. To reduce the complexity and detail of the computations shown in Case 4A (paragraph 453, Schedules 1 and 2), alternative amortization approaches that recognize prior service cost related to plan amendments more rapidly may be applied if used consistently (paragraph 53). For example, if Company H (Case 4A) elects to use straight-line amortization of prior service cost over the average remaining years of service prior to full eligibility for benefits of the active plan participants (932 future service years/100 employees = 9.32 years), the amortization would be as follows:

Year	Beginning-of-of-Year Balance	Amortization	End-of-Year Balance
1994	$750,000	$80,472 [a]	$669,528
1995	669,528	80,472	589,056
1996	589,056	80,472	508,584
1997	508,584	80,472	428,112
1998	428,112	80,472	347,640
1999	347,640	80,472	267,168
2000	267,168	80,472	186,696
2001	186,696	80,472	106,224
2002	106,224	80,472	25,752
2003	25,752	25,752	0

[a] $750,000 ÷ 9.32 years = $80,472.

Note: Under this approach, the first year's amortization is the same as the first year's amortization under the weighted remaining years of service method illustrated in Case 4A (paragraph 453, Schedule 2). Thereafter, the amortization pattern will differ.

Illustration 5—Accounting for Gains and Losses and Timing of Measurements

455. Gains and losses are changes in the amount of the accumulated postretirement benefit obligation or plan assets resulting from experience different from that assumed or changes in assumptions (paragraph 56). This illustration demonstrates the effects of gains and losses in accounting for postretirement benefits for Company I from 1993 to 1995. Case 5A (paragraphs 457-461) illustrates the accounting for a loss resulting from changes in assumptions in measuring the accumulated postretirement benefit obligation. Case 5B (paragraphs 462-464) illustrates the effect of a gain when the return on plan assets exceeds projections. Case 5C (paragraphs 465-467) illustrates the accounting in a year when both gains and losses are experienced.

456. Company I adopts this Statement for the fiscal year beginning January 1, 1993 and elects a December 31 measurement date (date at which the accumulated postretirement benefit obligation and plan assets are measured). Alternatively, as discussed in paragraph 72, the company could choose a measurement date not earlier than September 30. The company's accumulated postretirement benefit obligation on December 31, 1992 is $6,000,000, and the plan is unfunded. Beginning in 1993, and unless otherwise noted, the company funds at the end of each year an amount equal to the benefits paid that year plus the service cost and interest cost for that year. For illustrative purposes, the following assumptions are used to project changes in the accumulated postretirement benefit obligation and plan assets during the period 1993-1995:

	1993	1994	1995
Discount rate	9.5%	9.0%	9.0%
Expected long-term rate of return on plan assets		10.0%	10.0%
Average remaining years of service of active plan participants	12	12	12

Case 5A—Loss on Obligation

457. The reconciliation of the funded status of Company I's postretirement benefit plan with the amount shown in the statement of financial position at the date of transition (January 1, 1993) follows:

	Actual 1/1/93
Accumulated postretirement benefit obligation	$(6,000,000)
Plan assets at fair value	0
Funded status	(6,000,000)
Unrecognized transition obligation	6,000,000
(Accrued)/prepaid postretirement benefit cost	$ 0

458. Pursuant to paragraph 112, Company I elects to amortize the unrecognized transition obligation over a 20-year period rather than the average remaining service period of active plan participants at the date of transition (12 years). Projected changes in prepaid postretirement benefit cost, accumulated postretirement benefit obligation, unrecognized transition obligation, and plan assets in 1993 are summarized as follows:

	Prepaid Postretirement Benefit Cost	Accumulated Postretirement Benefit Obligation	Unrecognized Transition Obligation	Plan Assets
Beginning of year	$ 0	$(6,000,000)	$6,000,000	$ 0
Recognition of components of net periodic postretirement benefit cost:				
Service cost	(300,000)	(300,000)		
Interest cost	(570,000)	(570,000)		

Amortization of transition obligation	(300,000)		(300,000)	
	(1,170,000)	(870,000)	(300,000)	
Assets contributed to plan	1,500,000			1,500,000
Benefit payments from plan	-	630,000	-	(630,000)
Net change	330,000	(240,000)	(300,000)	870,000
End of year—projected	$ 330,000	$(6,240,000)	$5,700,000	$ 870,000

459. When Company I's plan assets and obligations are measured at December 31, 1993, the accumulated postretirement benefit obligation is $760,000 greater than been projected (a loss occurs) because the discount rate declined to 9 percent and for various other reasons not specifically identified. Company I elects to amortize amounts in excess of the "corridor" over the average remaining service period of active plan participants. [a]

460. The change in the funded status of the plan at December 31, 1993 from amounts projected and the reconciliation of the funded status of the plan with the amount shown in the statement of financial position at that date follow:

	Projected 12/31/93	Net Loss	Actual 12/31/93
Accumulated postretirement benefit obligation	$(6,240,000)	$(760,000)	$(7,000,000)
Plan assets at fair value	870,000		870,000
Funded status	(5,370,000)	(760,000)	(6,130,000)
Unrecognized net loss		760,000	760,000
Unrecognized transition obligation	5,700,000		5,700,000
Prepaid postretirement benefit cost	$ 330,000	$ 0	$ 330,000

461. In addition to the funded status reconciliation, the 1993 financial statements include the following disclosure of the components of net periodic postretirement benefit cost (as required by paragraph 74(b)):

Service cost	$ 300,000
Interest cost	570,000
Amortization of transition obligation	300,000
Net periodic postretirement benefit cost	$1,170,000

Case 5B—Gain on Assets

462. Changes in prepaid postretirement benefit cost, accumulated postretirement benefit obligation, unrecognized transition obligation, unrecognized net loss, and plan assets are projected at the beginning of the year. That projection serves as the basis for interim accounting until a subsequent event occurs requiring remeasurement. The projection at the beginning of 1994 follows:

	Prepaid Postretirement Benefit Cost	Accumulated Postretirement Benefit Obligation	Unrecognized Transition Obligation	Unrecognized Net Loss	Plan Assets
Beginning of year	$ 330,000	$(7,000,000)	$5,700,000	$760,000	$ 870,000
Recognition of components of net periodic postretirement benefit cost:					
Service cost	(320,000)	(320,000)			
Interest cost	(630,000)	(630,000)			
Amortization of transition obligation	(300,000)		(300,000)		
Amortization of unrecognized net loss [a]	(5,000)			(5,000)	
Expected return on plan assets [b]	87,000				87,000
	(1,168,000)	(950,000)	(300,000)	(5,000)	87,000
Assets contributed to plan	1,650,000				1,650,000
Benefit payments from plan		700,000			(700,000)
Net change	482,000	(250,000)	(300,000)	(5,000)	1,037,000
End of year—projected	$ 812,000	$(7,250,000)	$5,400,000	$755,000	$1,907,000

[a]Refer to Schedule 2 (paragraph 469) for computation.

[b]Refer to Schedule 1 (paragraph 468) for computation.

463. When Company I's plan assets and obligations are measured at December 31, 1994, the fair value of the plan assets is $150,000 greater than expected (an experience gain) because market performance was better than the 10 percent return that was assumed. The change in the funded status of the plan at December 31, 1994 from amounts projected and the reconciliation of the funded status of the plan with the amount shown in the statement of financial position at that date follow:

	Projected 12/31/94	Net Gain	Actual 12/31/94
Accumulated postretirement benefit obligation	$(7,250,000)		$(7,250,000)
Plan assets at fair value	1,907,000	$150,000 [c]	2,057,000
Funded status	(5,343,000)	150,000	(5,193,000)
Unrecognized net (gain) or loss	755,000	(150,000)	605,000
Unrecognized transition obligation	5,400,000		5,400,000
Prepaid postretirement benefit cost	$ 812,000	$ 0	$ 812,000

[c]Refer to Schedule 1 (paragraph 468) for computation.

464. The 1994 financial statements include the following disclosure of the components of net periodic postretirement benefit cost:

Service cost	$ 320,000
Interest cost	630,000
Actual return on plan assets [d]	(237,000)
Amortization of transition obligation	300,000
Net amortization and deferral [e]	155,000
Net periodic postretirement benefit cost	$1,168,000

[d]Refer to Schedule 3 (paragraph 470) for computation.

[e]Refer to Schedule 4 (paragraph 471) for computation.

Case 5C—Loss on Assets and Gain on Obligation

465. Projected changes in prepaid postretirement benefit cost, accumulated postretirement benefit obligation, unrecognized transition obligation, unrecognized net loss, and plan assets for 1995 are summarized as follows:

	Prepaid Postretirement Benefit Cost	Accumulated Postretirement Benefit Obligation	Unrecognized Transition Obligation	Unrecognized Net Loss	Plan Assets
Beginning of year	$ 812,000	$(7,250,000)	$5,400,000	$605,000	$2,057,000
Recognition of components of net periodic postretirement benefit cost:					
Service cost	(360,000)	(360,000)			
Interest cost	(652,500)	(652,500)			
Amortization of transition obligation	(300,000)		(300,000)		
Amortization of unrecognized net loss [a]	0			0	
Expected return on plan assets [b]	193,700				193,700
	(1,118,800)	(1,012,500)	(300,000)	0	193,700
Assets contributed to plan	1,912,500				1,912,500
Benefit payments from plan		900,000			(900,000)
Net change	793,700	(112,500)	(300,000)	0	1,206,200
End of year—projected	$1,605,700	$(7,362,500)	$5,100,000	$605,000	$3,263,200

[a]Refer to Schedule 2 (paragraph 469) for computation.

[b]Refer to Schedule 1 (paragraph 468) for computation.

466. When Company I's plan assets and obligations are measured at December 31, 1995, both an asset loss of $220,360 and a liability gain of $237,260 are determined. The change in the funded status of the plan at December 31, 1995 from amounts projected and the reconciliation of the funded status of the plan with the amount shown in the statement of financial position at that date follow:

	Projected 12/31/95	Net Gain/Loss	Actual 12/31/95
Accumulated postretirement benefit obligation	$(7,362,500)	$237,260	$(7,125,240)
Plan assets at fair value	3,263,200	(220,360)[c]	3,042,840
Funded status	(4,099,300)	16,900	(4,082,400)
Unrecognized net (gain) or loss	605,000	(16,900)	588,100
Unrecognized transition obligation	5,100,000		5,100,000
Prepaid postretirement benefit cost	$ 1,605,700	$ 0	$ 1,605,700

[c]Refer to Schedule 1 (paragraph 468) for computation.

467. The 1995 financial statements include the following disclosure of the components of net periodic postretirement benefit cost:

Service cost	$ 360,000
Interest cost	652,500
Actual loss on plan assets [d]	26,660
Amortization of transition obligation	300,000
Net amortization and deferral [e]	(220,360)
Net periodic postretirement benefit cost	$1,118,800

[d]Refer to Schedule 3 (paragraph 470) for computation.

[e]Refer to Schedule 4 (paragraph 471) for computation.

Supporting Schedules

Schedule 1—Plan Assets

468. This Statement requires use of an assumption about the long-term rate of return on plan assets and a market-related value of plan assets to calculate the expected return on plan assets. If the fund holding plan assets is a taxable entity, the expected long-term rate of return on plan assets is net of estimated income taxes, and the nonbenefit liability for accrued income taxes reduces plan assets. This Statement defines market-related asset value as either fair value or a

calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years (paragraph 57). This schedule reflects the calculation of market-related value, the fair value of plan assets, the actual return on plan assets, and the deferred asset gain or loss for the year (the difference between actual and expected return on plan assets included in the net amortization and deferral component of net periodic postretirement benefit cost).

	1993	1994	1995
Expected long-term rate of return on plan assets		10.0%	10.0%
Beginning balance, market-related value [a]	$ 0	$ 870,000	$1,937,000
Contributions to plan (end of year)	1,500,000	1,650,000	1,912,500
Benefits paid by plan	(630,000)	(700,000)	(900,000)
Expected return on plan assets		87,000	193,700
	870,000	1,907,000	3,143,200
20% of each of last 5 years' asset gains (losses)		30,000	(14,072)
Ending balance, market-related value	$ 870,000	$1,937,000	$3,129,128
Beginning balance, fair value of plan assets	$ 0	$ 870,000	$2,057,000
Contributions to plan	1,500,000	1,650,000	1,912,500
Benefits paid	(630,000)	(700,000)	(900,000)
Actual return (loss) on plan assets [b]	0	237,000	(26,660)
Ending balance, fair value of plan assets	$ 870,000	$2,057,000	$3,042,840
Deferred asset gain (loss) for year [c]	$ 0	$ 150,000	$ (220,360)
Gain (loss) not included in ending balance market-related value [d]	$ 0	$ 120,000	$ (86,288)

[a]This example uses an approach that adds in 20% of each of the last 5 years' gains or losses.

[b]Refer to Schedule 3 (paragraph 470) for computation.

[c](Actual return on plan assets) – (expected return on plan assets).

[d](Ending balance, fair value of plan assets) – (ending balance, market-related value of plan assets).

Schedule 2—Test for Amortization of Unrecognized Net Gain or Loss

469. This Statement generally does not require recognition of any of the gain or loss in the period in which it arises and permits a minimum amortization of an unrecognized net gain or loss whereby the net amount in excess of the "corridor" is amortized over the average remaining service period of active plan participants (paragraph 59 and paragraph 459, footnote a). That allows a reasonable opportunity for gains and losses to offset each other without affecting net periodic postretirement benefit cost.

	1993	1994	1995
10% of beginning balance of accumulated postretirement benefit obligation	$600,000	$700,000	$725,000
10% of beginning balance of market-related value of plan assets [e]	$ 0	$ 87,000	$193,700
Greater of the above	$600,000	$700,000	$725,000
Unrecognized net (gain) loss at beginning of year		$760,000	$605,000
Asset gain (loss) not included in beginning balance of market-related value [f]		0	120,000
Amount subject to amortization		$760,000	$725,000
Amount in excess of the corridor subject to amortization		$ 60,000	$ 0
Divided by average remaining service period (years)		12	
Required amortization		$ 5,000	

[e]Refer to Schedule 1 (paragraph 468) for calculation of market-related value of plan assets.

[f]Refer to Schedule 1 (paragraph 468) for calculation of gain or loss not included in prior year's ending balance market-related value.

Schedule 3—Determination of Actual Return or Loss on Plan Assets

470. The determination of the actual return or loss on plan assets component of net periodic postretirement benefit cost is as follows:

	1993	1994	1995
Plan assets at fair value, beginning of year	$ 0	$ 870,000	$ 2,057,000
Plus: assets contributed to plan	1,500,000	1,650,000	1,912,500
Less: benefit payments from plan	(630,000)	(700,000)	(900,000)
	870,000	1,820,000	3,069,500
Less: plan assets at fair value, end of year	(870,000)	(2,057,000)	(3,042,840)
Actual (return) loss on plan assets	$ 0	$ (237,000)	$ 26,660

Schedule 4—Determination of Net Amortization and Deferral

471. The net amortization and deferral component of net periodic postretirement benefit cost required to be disclosed pursuant to paragraph 74(b) is determined as follows:

	1994	1995
Amortization of unrecognized net (gain) or loss [g]	$ 5,000	$ 0
Deferred asset gain (loss) for year [h]	150,000	(220,360)
Net amortization and deferral	$155,000	$(220,360)

[g]Refer to Schedule 2 (paragraph 469) for computation.

[h]Refer to Schedule 1 (paragraph 468) for computation.

Illustration 6—Defined-Dollar Capped Plans

472. The following cases (6A and 6B, paragraphs 473-478) demonstrate the operation of defined-dollar capped plans and the possible effect of the "cap" on projecting costs for purposes of measuring the accumulated postretirement benefit obligation and net periodic postretirement benefit cost. The examples are simplified and illustrate only one aspect of the measurement process (paragraph 17 and paragraph 33, footnote 13).

Case 6A—Dollar Cap Defined on Individual Coverage

473. Company J sponsors a postretirement health care plan for its salaried employees. The plan has an annual limitation (a "cap") on the dollar amount of the employer's share of the cost of covered benefits incurred by a plan participant. The retiree is responsible, therefore, for the amount by which the cost of the benefit coverage under the plan incurred during a year exceeds that cap. The company adjusts the cap annually for the effects of inflation. For 1993, the cap is $1,500; the inflation adjustment in 1994 and 1995 is assumed to be 4 percent. The employer's health care cost trend rate assumption is 13 percent for 1994 and 12 percent for 1995.

474. The employer's projected cost of providing benefit coverage in 1993-1995 for a 67-year-old retiree follows. Similar projections are made for each age at which a plan participant is expected to receive benefits under the plan. In this example, the incurred claims cost exceeds the cap on the employer's share of the cost in each year.

	Expected Cost for 67-Year-Old Retiree		
	1993	1994	1995
Gross eligible charges	$3,065	$3,463	$ 3,879
Medicare [a]	(890)	(1,003)	(1,125)
Deductible/coinsurance	(325)	(340)	(355)
Incurred claims cost	$1,850	$2,120	$ 2,399
Annual cap on employer's cost	$1,500	$1,560	$ 1,622
Employer's share of incurred claims cost	$1,500	$1,560	$ 1,622
Retiree's share of gross eligible charges [b]	$ 675	$ 900	$ 1,132

[a]The change in Medicare reflects the portion of the gross eligible charges for which Medicare is responsible under enacted Medicare legislation.

[b]Deductible/coinsurance plus share of incurred claims:
1993—[$325 + ($1,850 – $1,500)]; 1994—[$340 + ($2,120 – $1,560)]; 1995—[$355 + ($2,399 – $1,622)].

475. If, based on the health care cost trend rate assumptions, the employer's share of costs for each plan participant is not expected to be less than the cap in the future, Company J could

measure its expected postretirement benefit obligation by projecting the annual cap. However, if per capita claims data for some plan participants or estimates of the health care cost trend rate indicate that in the future the employer's share of the incurred claims cost will be less than the cap for at least some plan participants, the employer's obligation is to be measured as described in paragraphs 34-42.

Case 6B—Dollar Cap Defined in the Aggregate for the Retiree Group

476. Company K sponsors a contributory postretirement health care plan for its hourly employees. The plan has an annual limitation (a "cap") on the dollar amount of the employer's share of the cost of covered benefits incurred by the retiree group as a whole. The Company agrees to bear annual costs equal to a specified dollar amount ($1,500 in 1993) multiplied by the number of retired plan participants (the employer contribution); participating retirees are required to contribute a stated amount each year ($1,000 in 1993). The cap on the employer's share of annual costs and the retirees' contribution rates are increased 5 percent annually. The shortfall in a year (the amount by which incurred claims cost exceed the combined employer and retiree contributions) is initially borne by the employer but is passed back to retirees in the subsequent year through supplemental retiree contributions for that year (a retrospective adjustment).

477. The employer projects the aggregate cost of benefits expected to be paid to current plan participants (40 retirees) in each future period as follows:

	1993	1994	1995
Gross eligible charges	$160,000	$215,000	$197,000
Medicare	(46,500)	(62,350)	(57,300)
Deductible/coinsurance	(20,750)	(27,440)	(24,700)
Incurred claims cost	$ 92,750	$125,210	$115,000
Retiree contributions [a]	$ 40,000	$ 42,000	$ 44,080
Maximum employer contribution [b]	60,000	63,000	66,160
	$100,000	$105,000	$110,240
Shortfall (to be recovered by additional retiree contributions in subsequent year)		$ 20,210	$ 4,760
Supplemental contribution from retirees due to shortfall in prior year			$ 20,210

[a]Per retiree: 1993—$1,000; 1994—$1,050; 1995—$1,102.
[b]Per retiree: 1993—$1,500; 1994—$1,575; 1995—$1,654.

478. If, as in this example, retirees absorb the entire shortfall in annual contributions and if there is a projected shortfall for all future years, the employer could measure its expected postretirement benefit obligation by projecting its annual contribution (contribution rate x expected number of retirees = expected obligation for the year).

Illustration 7—Disclosure Requirements

479. This Statement requires an employer to disclose information in its financial statements about the obligation to provide postretirement benefits and the cost of providing those benefits. Paragraph 74 describes the disclosures required for defined benefit postretirement plans (paragraphs 77 and 78 describe how those disclosures may be aggregated by an employer with more than one postretirement benefit plan), paragraph 106 describes the disclosures required for defined contribution plans, and paragraph 82 describes the disclosures required for multiemployer plans. The following cases (7A-7C, paragraphs 480-483) illustrate those disclosure requirements. For simplicity, comparative financial statements are not presented.

Case 7A—Single-Employer Defined Benefit Postretirement Plan

480. Paragraph 78(a) permits an employer to combine the disclosures for health and other welfare benefit plans unless the accumulated postretirement benefit obligation of the plans that provide primarily other postretirement welfare benefits is significant relative to the aggregate accumulated postretirement benefit obligation of all the employer's postretirement benefit plans. For an employer that provides more than one defined benefit postretirement plan, the disclosure for the year ended December 31, 1993 would be as follows. Because the life insurance plan is not significant, it is combined with the health care plan for disclosure purposes as permitted by paragraph 78.

Note X: The company sponsors two defined benefit postretirement plans that cover both salaried and nonsalaried employees. One plan provides medical and dental benefits, and the other provides life insurance benefits. The postretirement health care plan is contributory, with retiree contributions adjusted annually; the life insurance plan is noncontributory. The accounting for the health care plan anticipates future cost-sharing changes to the written plan that are consistent with the company's expressed intent to increase retiree contributions each year by 50 percent of the excess of the expected general inflation rate over 6 percent. On July 24, 1993, the company amended its postretirement health care plan to provide vision coverage. Beginning in 1993, the company adopted a funding policy for its postretirement health care plan similar to its funding policy for its life insurance plan—an amount equal to a level percentage of the employees' salaries is contributed to the plan annually. For 1993, that percentage was 4.25, and the aggregate contribution for both plans was $34,000.

The following table sets forth the plans' combined funded status reconciled with the amount shown in the company's statement of financial position at December 31, 1993:

Accumulated postretirement benefit obligation:	
Retirees	$(187,000)
Fully eligible active plan participants	(100,000)
Other active plan participants	(297,400)
	(584,400)
Plan assets at fair value, primarily listed U.S. stocks and bonds	87,960
Accumulated postretirement benefit obligation in excess of plan assets	(496,440)
Unrecognized net gain from past experience different from that assumed and from changes in assumptions	(40,000)
Prior service cost not yet recognized in net periodic postretirement benefit cost	19,000
Unrecognized transition obligation	470,250
Accrued postretirement benefit cost	$ (47,190)

The company's postretirement health care plan is underfunded; the accumulated postretirement benefit obligation and plan assets for that plan are $552,400 and $36,800, respectively.

Net periodic postretirement benefit cost for 1993 included the following components:

Service cost—benefits attributed to service during the period	$15,000
Interest cost on accumulated postretirement benefit obligation	44,400
Actual return on plan assets	(3,960)
Amortization of transition obligation over 20 years	24,750
Net amortization and deferral	1,000
Net periodic postretirement benefit cost	$81,190

For measurement purposes, a 16 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1994; the rate was assumed to decrease gradually to 6 percent for 2020 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by 1 percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1993 by $73,000 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by $13,000.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 8 percent. The trust holding the plan assets is subject to federal income taxes at a 34 percent tax rate. The expected long-term rate of return on plan assets after estimated taxes

was 6.6 percent.

Case 7B—Defined Contribution Plan

481. An illustration of the disclosure for a defined contribution plan follows:

Note X: The company sponsors a defined contribution postretirement health care plan covering substantially all of its employees in both its chemicals and automotive subsidiaries. The company's contributions and cost are determined annually as 1.5 percent of each covered employee's salary and totaled $569,000 in 1993.

Case 7C—Multiemployer Plan

482. An illustration of the disclosure for a multiemployer plan follows:

Note X: The company's trucking subsidiary participates in a multiemployer plan that provides defined postretirement health care benefits to substantially all unionized workers in that subsidiary. Amounts charged to postretirement benefit cost and contributed to the plan totaled $319,000 in 1993.

483. If the information regarding the amount of postretirement benefit cost recognized during the period (disclosed in paragraph 482) is not available and the postretirement health and welfare benefits are provided through a general health and welfare plan, the amount of the aggregate required contribution to the general health and welfare benefit plan should be disclosed as follows (paragraph 82(b)):

Note X: The company's trucking subsidiary participates in a multiemployer plan that provides substantially all unionized workers in that subsidiary with health care and other welfare benefits during their working lives and after retirement. Amounts charged to benefit cost and contributed to the health and welfare plan for those benefits totaled $400,000 in 1993.

Illustration 8—Accounting for Settlements

484. This Statement provides for delayed recognition of the effects of a plan initiation or a plan amendment, the transition obligation or transition asset, and gains or losses arising in the ordinary course of operations. In certain circumstances, however, recognition of some or all of those previously delayed amounts is appropriate. Settlements are events that may require income or expense recognition of certain previously unrecognized amounts and adjustments to liabilities or assets recognized in the employer's statement of financial position. The settlement of all or part of the accumulated postretirement benefit obligation is the event that requires recognition of all or part of a previously unrecognized net gain or loss and unrecognized transition asset. A settlement also may accelerate recognition of a transition obligation under the constraint in paragraph 112 (paragraphs 92 and 93). The following cases (8A-8C, paragraphs 485-495) illustrate the accounting for settlements in various circumstances.

Case 8A—Settlement When an Unrecognized Transition Obligation Exists

485. Company L sponsors a postretirement life insurance plan. On January 1, 1993, the company adopts this Statement; prior to that date it accounted for postretirement benefits on a pay-as-you-go (cash) basis. On December 31, 1994, Company L settles the accumulated postretirement benefit obligation for its current retirees ($70,000) through the purchase of nonparticipating life insurance contracts.

486. In accounting for the settlement, Company L must determine whether recognition of an additional amount of any unrecognized transition obligation is required pursuant to the constraint on delayed recognition of the transition obligation (paragraphs 112 and 113). At December 31, 1994, the cumulative postretirement benefit cost accrued subsequent to the date of transition exceeds the cumulative benefits payments subsequent to that date (including payments made pursuant to the settlement) in this example; thus, the constraint on delayed recognition of the transition obligation is not operative. The results of the settlement are as follows:

	December 31, 1994		
	Before Settlement	Settlement	After Settlement
Accumulated postretirement benefit obligation	$(257,000)	$70,000	$(187,000)
Plan assets at fair value	73,000	(70,000) [a]	3,000
Funded status	(184,000)	0	(184,000)
Unrecognized net gain	(44,575)	12,124 [a]	(32,451)
Unrecognized prior service cost	33,000		33,000
Unrecognized transition obligation	195,000	(12,124) [a]	182,876
Accrued postretirement benefit cost	$ (575)	$ 0	$ (575)

[a]The maximum settlement gain subject to recognition is the unrecognized net gain subsequent to transition plus any unrecognized transition asset ($44,575 + $0 = $44,575) (paragraph 92). If, as in this case, only part of the accumulated postretirement benefit obligation is settled, a pro rata portion of the maximum gain based on the relationship of the accumulated postretirement benefit obligation settled to the total accumulated postretirement benefit obligation ($70,000 ÷ $257,000 or 27.2%) is subject to recognition. That amount ($44,575 x 27.2% = $12,124) must first reduce any unrecognized transition obligation; any excess is recognized in income in the current period (paragraph 93). In this case, the settlement gain is entirely offset against the unrecognized transition obligation.

Case 8B—Settlement When an Unrecognized Transition Asset Exists

487. Company M sponsors a postretirement life insurance plan. On January 2, 1995, Company M settles the accumulated postretirement benefit obligation for its current retirees ($200,000) through the purchase of nonparticipating life insurance contracts.

488. Pursuant to paragraphs 92 and 93, a settlement gain of $78,506 is recognized, determined as follows:

	January 2, 1995		
	Before Settlement	Settlement	After Settlement
Accumulated postretirement benefit obligation	$(257,000)	$200,000	$(57,000)
Plan assets at fair value	350,900	(200,000)	150,900
Funded status	93,900	0	93,900
Unrecognized net gain	(44,575)	34,679 [a]	(9,896)
Unrecognized prior service cost	33,000		33,000
Unrecognized transition asset	(56,333)	43,827 [a]	(12,506)
Prepaid postretirement benefit cost	$ 25,992	$ 78,506	$104,498

[a]The maximum settlement gain is measured as the unrecognized net gain subsequent to transition plus the unrecognized transition asset ($44,575 + $56,333 = $100,908) (paragraph 92). Since only a portion of the accumulated postretirement benefit obligation is settled, a pro rata portion of the maximum gain based on the relationship of the accumulated postretirement benefit obligation settled to the total accumulated postretirement benefit obligation ($200,000 ÷ $257,000 or 77.8%) is subject to recognition. That amount ($100,908 x 77.8% = $78,506) must first reduce any unrecognized transition obligation ($0); any excess is recognized in income in the current period (paragraph 93). In this case, the entire settlement gain of $78,506 is recognized in income. The transition constraint of paragraph 112 that requires additional recognition of a *transition obligation* in certain circumstances is not applicable because there is an unrecognized *transition asset*.

Case 8C—Effect of Mid-Year Settlement on Transition Constraint

489. A settlement is an event that requires remeasurement of the accumulated postretirement benefit obligation prior to the settlement. This case illustrates the accounting for a settlement of part of the accumulated postretirement benefit obligation that occurs mid-year and the interaction between that event and other provisions of the Statement, such as the constraint on delayed recognition of the transition obligation.

490. Company N adopts this Statement for the fiscal year beginning January 1, 1993 and elects a year-end (December 31) measurement date. At the date of transition, the company's accumulated postretirement benefit obligation for its postretirement life insurance plan is $6,000,000, and there are no plan assets. In 1993, the company establishes a policy of funding at the end of each year an amount equal to the benefits paid during the year plus the service and interest cost for the year. Benefits are paid at the end of each year and in 1993 are $630,000, which is less than the net periodic postretirement benefit cost accrued for the year ($1,170,000); thus, no additional transition obligation is recognized pursuant to paragraph 112. Company N

elects to amortize net unrecognized gains and losses in excess of the "corridor" over the average remaining service period of plan participants (paragraph 59 and paragraph 459, footnote a).

491. At the beginning of 1994, Company N projects the life insurance benefits expected to be paid in 1994 to retirees' beneficiaries to determine whether recognition of an additional amount of the unrecognized transition obligation will be required (paragraph 113). Although Company N is considering settling a portion of the accumulated postretirement benefit obligation, the effects of the settlement are not included in the projection because plan settlements are not anticipated for measurement or recognition prior to their occurrence. The projection indicates that no additional amount is required to be recognized. On June 30, 1994, Company N contributes additional funds ($1,430,000) and settles a portion ($1,900,000) of the accumulated postretirement benefit obligation for its current retirees through the purchase of nonparticipating life insurance contracts.

492. The changes in the funded status of the plan during the first six months of the year and a reconciliation of the funded status of the plan with the amount shown in the statement of financial position immediately prior to the settlement are as follows:

	Actual 12/31/93	Six Months Postretirement Benefit Cost	Assets Contributed to Plan	Effects of Remeasurement Unrecognized Net Loss	Before Settlement 6/30/94
Accumulated post-retirement benefit obligation	$(6,600,000)	$(457,000) [a]		$420,000 [b]	$(6,637,000)
Plan assets at fair value	870,000	43,500 [c]	$1,430,000	0 [b]	2,343,500
Funded status	(5,730,000)	(413,500)	1,430,000	420,000	(4,293,500)
Unrecognized net (gain) or loss	360,000	0		(420,000) [b]	(60,000)
Unrecognized transition obligation	5,700,000	(150,000)			5,550,000
Prepaid postretirement benefit cost	$ 330,000	$(563,500)	$1,430,000	$ 0	$1,196,500 [d]

[a]Represents 6 months' service cost of $160,000 and interest cost of $297,000 on the accumulated postretirement benefit obligation for 1994, assuming a 9% discount rate.

[b]A gain results from the remeasurement of the accumulated postretirement benefit obligation immediately prior to the settlement as a result of a change in the assumed discount rates based on the interest rates inherent in the price at which the accumulated postretirement benefit obligation for the retirees will be settled. No gain or loss results from remeasurement of plan assets.

[c]Represents 6 months' return on plan assets, assuming a 10% return.

[d]Because there is a settlement (treated as a benefit payment) and a prepaid asset exists as a result of providing the funds to effect that settlement, the constraint on delayed recognition of the transition obligation pursuant to paragraph 112 may be applicable. The test to determine whether additional recognition is necessary should be done based on amounts for the full year (paragraph 494).

493. In accounting for a settlement, an employer must determine whether recognition of an additional amount of any unrecognized transition obligation is required pursuant to the constraint on delayed recognition (paragraph 112). Any additional transition obligation required to be recognized as a result of a settlement is recognized when the related settlement is recognized (paragraph 113) as illustrated in the following table. Detailed calculations are presented in paragraph 494.

	June 30, 1994			
	Before Settlement	Settlement	Recognition of Transition Obligation	After Settlement
Accumulated postretirement benefit obligation	$(6,637,000)	$1,900,000		$(4,737,000)
Plan assets at fair value	2,343,500	(1,900,000)		443,500
Funded status	(4,293,500)	0		(4,293,500)
Unrecognized net (gain) or loss	(60,000)	17,160 [e]		(42,840)
Unrecognized transition obligation	5,550,000	(17,160) [e]	$(718,822)	4,814,018
Prepaid postretirement benefit cost	$ 1,196,500	$ 0	$(718,822)	$ 477,678

[e] The maximum settlement gain subject to recognition is the unrecognized net gain subsequent to transition plus any unrecognized transition asset ($60,000 + $0 = $60,000). If, as in this case, only part of the accumulated postretirement benefit obligation is settled, a pro rata portion of the maximum gain based on the relationship of the accumulated postretirement benefit obligation settled to the total accumulated postretirement benefit obligation ($1,900,000 ÷ $6,637,000 or 28.6%) is subject to recognition. That amount ($60,000 x 28.6% = $17,160) must first reduce any unrecognized transition obligation (paragraph 93); any excess is recognized. In this situation, the settlement gain is entirely offset against the unrecognized transition obligation.

494. When a settlement occurs in the middle of the year, as in this example, the additional transition obligation to be recognized, if any, pursuant to the constraint in paragraph 112 is determined based on projected amounts for the full year. In this case, at June 30, 1994, cumulative benefit payments from the date of transition (January 1, 1993) to December 31, 1994 are projected to exceed cumulative postretirement benefit cost accrued for that same period as illustrated in the following table. The additional transition obligation to be recognized is the amount by which cumulative benefit payments exceed cost accrued, or $718,822.

	Projected 12/31/94
Benefit payments:	
1/1/93 to beginning of 1994	$ 630,000
1994 excluding settlement	410,000
Settlement	1,900,000
Cumulative benefit payments	$2,940,000
Postretirement benefit cost recognized:	
1/1/93 to beginning of 1994	$1,170,000
1994	1,051,178 [f]
Cumulative cost recognized	$2,221,178
Benefit payments in excess of cost recognized	$ 718,822

[f]$563,500 for period 1/1/94 through 6/30/X4 plus $487,678 for period 7/1/94 through 12/31/94. The net postretirement benefit cost of $487,678 recognized in the second half of 1994 (paragraph 495) includes amortization ($130,108) of the unrecognized transition obligation that remains after recognizing an additional portion ($718,822) of the unrecognized transition obligation pursuant to paragraph 112. Because determination of the additional portion of the transition obligation to be recognized and the transition obligation amortized in the second half of 1994 are interrelated, those amounts are determined in a single computation that is intended to result in unrecognized transition obligation at the end of the year that appropriately reflects the constraint of paragraph 112.

495. After the settlement, net periodic postretirement benefit cost for the remainder of the year is remeasured. The projected funded status of the plan reconciled to the projected amounts to be shown in the statement of financial position follows:

	After Settlement 6/30/94	Six Months Postretirement Benefit Cost	Benefit Payments	Assets Contributed to Plan	Projected 12/31/94
Accumulated postretirement benefit obligation	$(4,737,000)	$(379,745) [g]	$410,000		$(4,706,745)
Plan assets at fair value	443,500	22,175 [h]	(410,000)	$1,246,745	1,302,420
Funded status	(4,293,500)	(357,570)	0	1,246,745	(3,404,325)
Unrecognized net gain	(42,840)	0			(42,840)
Unrecognized transition obligation	4,814,018	(130,108) [i]			4,683,910
(Accrued)/prepaid postretirement cost	$ 477,678	$(487,678)	$ 0	$1,246,745	$ 1,236,745

[g]Represents 6 months' service cost of $150,000 and interest cost of $229,745 on the accumulated postretirement benef discount rate.

[h]Represents 6 months' return on plan assets, assuming a 10% return.

[i]Unrecognized transition obligation at 6/30/94 of $4,814,018 ÷ 18.5 years remaining in amortization period = $260 $130,108.

Illustration 9—Accounting for Curtailments

496. This Statement provides for delayed recognition of the effects of a plan initiation or a plan amendment, the transition obligation or transition asset, and gains or losses arising in the ordinary course of operations. In certain circumstances, however, recognition of some or all of those previously delayed amounts is appropriate. Curtailments are events that may require income or expense recognition of certain previously unrecognized amounts and adjustments to liabilities or assets recognized in the employer's statement of financial position.

497. A curtailment is an event that significantly reduces the expected years of future service of active plan participants or eliminates the accrual of defined benefits for some or all of the future services of a significant number of active plan participants. Such a reduction or elimination raises doubt about the continued existence of the future economic benefits of prior plan amendments. Therefore, an appropriate portion of the remaining unrecognized prior service cost should be recognized when it is probable that a curtailment will occur, the effects are reasonably estimable, and the estimated effects of the curtailment are a net loss. When the estimated effects of a curtailment are a net gain, the gain should be recognized in income when the related employees terminate or the plan suspension or amendment is adopted (paragraphs 97-99). For purposes of measuring those effects, any remaining unrecognized transition obligation is treated as unrecognized prior service cost. The following cases (9A and 9B, paragraphs 498-501) illustrate the accounting for curtailments.

Case 9A—Curtailment When an Unrecognized Gain and an Unrecognized Transition Obligation Exist

498. Company P sponsors a postretirement benefit plan. On October 29, 1994, Company P decides to reduce its operations by terminating a significant number of employees effective December 31, 1994. On October 29, 1994, it is expected that a curtailment gain will result from the termination. A consequence of the curtailment is a significant reduction in the number of employees accumulating benefits under the plan. The *remaining years of expected service* associated with those terminated employees who were plan participants at the date of transition is 22 percent of the remaining years of service of all plan participants at the date of transition. The *remaining years of service prior to full eligibility* associated with those terminated employees who were plan participants at the date of a prior plan amendment is 18 percent of the remaining years of service of all plan participants at the date of that plan amendment.

499. The sum of the effects of the plan curtailment is a gain of $5,160 that should be

recognized in income when the related employees terminate (paragraph 99). That gain is determined as follows:

	December 31, 1994 Before Curtailment	Curtailment	After Curtailment
Accumulated postretirement benefit obligation	$(257,000)	$ 54,000 [a]	$(203,000)
Plan assets at fair value	73,000		73,000
Funded status	(184,000)	54,000	(130,000)
Unrecognized net gain	(44,575)		(44,575)
Unrecognized prior service cost	33,000	(5,940) [a]	27,060
Unrecognized transition obligation	195,000	(42,900) [a]	152,100
(Accrued)/prepaid postretirement benefit cost	$ (575)	$ 5,160	$ 4,585

[a]The effect of the curtailment consists of two components:

1. The unrecognized transition obligation and unrecognized prior service cost associated with remaining years of service no longer expected to be rendered--measured as 22% (reduction in the remaining years of expected service associated with those terminated employees who were plan participants at the date of transition) of the unrecognized transition obligation of $195,000 ($42,900) and 18% (reduction in the remaining years of service prior to full eligibility for benefits associated with those terminated employees who were plan participants at the date of a prior plan amendment) of the unrecognized prior service cost of $33,000 related to that amendment ($5,940) (paragraph 97)
2. The gain from the decrease in the accumulated postretirement benefit obligation of $54,000 (due to the termination of employees whose accumulated benefits were not vested under the plan) in excess of the unrecognized net loss of $0, or $54,000 (paragraph 98(a)).

Case 9B—Curtailment Related to a Disposal of a Portion of the Business and an Unrecognized Loss and Unrecognized Transition Obligation Exist

500. Company R sponsors a postretirement benefit plan. On December 31, 1994, Company R sells a portion of its business at a gain of $100,000 before considering the effect of the related curtailment of its postretirement benefit plan. In connection with the sale, the number of employees accumulating benefits under the plan is significantly reduced; thus, a curtailment occurs. The *remaining years of expected service* associated with the terminated employees who were plan participants at the date of transition is 22 percent of the remaining years of service of all plan participants at the date of transition. The *remaining years of service prior to full eligibility* associated with the terminated employees who were plan participants at the date of that prior plan amendment is 18 percent of the remaining years of service of all plan participants at the date of that plan amendment.

501. The sum of the effects of the plan curtailment is a loss of $36,265 that should be

recognized with the gain of $100,000 associated with Company R's sale of a portion of its business. The loss is determined as follows:

	December 31, 1994 Before Curtailment	Curtailment	After Curtailment
Accumulated postretirement benefit obligation	$(343,000)	$ 54,000 [a]	$(289,000)
Plan assets at fair value	73,000		73,000
Funded status	(270,000)	54,000	(216,000)
Unrecognized net loss	41,425	(41,425) [a]	0
Unrecognized prior service cost	33,000	(5,940) [a]	27,060
Unrecognized transition obligation	195,000	(42,900) [a]	152,100
Accrued postretirement benefit cost	$ (575)	(36,265)	$ (36,840)

[a]The effect of the curtailment consists of two components:

1. The unrecognized transition obligation and unrecognized prior service cost associated with remaining years of service no longer expected to be rendered--measured as 22% (reduction in the remaining years of expected service associated with those terminated employees who were plan participants at the date of transition) of the unrecognized transition obligation of $195,000 ($42,900) and 18% (reduction in the remaining years of service prior to full eligibility for benefits associated with those terminated employees who were plan participants at the date of a prior plan amendment) of the unrecognized prior service cost of $33,000 related to that amendment ($5,940) (paragraph 97)
2. The gain from the decrease in the accumulated postretirement benefit obligation of $54,000 (due to the termination of employees whose accumulated benefits were not vested under the plan) in excess of the unrecognized net loss of $0, or $54,000 (paragraph 98(a)).

Illustration 10—Accounting for a Partial Settlement and a Full Curtailment That Occur as a Direct Result of a Sale of a Line of Business

502. Company S sells a line of business on December 31, 1994; prior to that date, the company had no formal plan for disposal of those operations. Company S has a separate postretirement benefit plan that provides health care benefits to retirees of the division that is sold. In connection with that sale, (a) all of the employees of that division are terminated by Company S resulting in no further accumulation of benefits under the postretirement benefit plan (a full curtailment), (b) most of the terminated employees are hired by the acquiring company (some terminated employees fully eligible for benefits elect to retire immediately), (c) an accumulated postretirement benefit obligation of $80,000 for postretirement benefits related to the hired employees is assumed by the acquiring company (a partial settlement, since the obligation for current retirees is retained by Company S), and (d) plan assets of $100,000, representing $80,000 for the settlement of the accumulated postretirement benefit obligation and $20,000 as an excess

contribution, are transferred from the plan to the acquiring company. A $300,000 gain from the sale is calculated before considering the related effects on the plan.

503. The employer's accounting policy is to determine the effects of a curtailment before determining the effects of a settlement when both events occur simultaneously. Pursuant to paragraph 97, the unrecognized prior service cost associated with the portion of the future years of service that had been expected to be rendered, but as a result of a curtailment are no longer expected to be rendered, is a loss. When a full curtailment occurs, the entire remaining unrecognized prior service cost and unrecognized transition obligation is a loss because there are no future years of service to be rendered.

504. The net loss from the curtailment is $228,000, which is recognized with the $300,000 gain resulting from the disposal of the division. The effect of the curtailment is determined as follows:

	December 31, 1994		
	Before Curtailment	Curtailment-Related Effects Resulting from Sale	After Curtailment
Accumulated postretirement benefit obligation	$(257,000)	$(10,000) [a]	$(267,000)
Plan assets at fair value	110,000		110,000
Funded status	(147,000)	(10,000)	(157,000)
Unrecognized net gain	(49,575)	10,000 [a]	(39,575)
Unrecognized prior service cost	33,000	(33,000) [b]	0
Unrecognized transition obligation	195,000	(195,000) [c]	0
(Accrued)/prepaid postretirement benefit cost	$ 31,425	$(228,000)	$(196,575)

[a] The increase in the accumulated postretirement benefit obligation as a result of the fully eligible employees retiring earlier than expected is a loss of $10,000. That loss reduces the unrecognized net gain of $49,575; any excess (none in this case) would be recognized as the effect of a curtailment (paragraph 98).

[b] Measured as 100% (reduction in the remaining years of service prior to full eligibility for benefits associated with those terminated employees who were plan participants at the date of a prior plan amendment) of the unrecognized prior service cost of $33,000 related to that amendment (paragraph 97).

[c] Measured as 100% (reduction in the remaining years of expected service associated with those terminated employees who were plan participants at the date of transition) of the unrecognized transition obligation of $195,000 (paragraph 97).

505. The $8,128 loss related to the settlement and transfer of plan assets that is recognized with the gain from the sale is determined as follows:

	December 31, 1994		
	After Curtailment	Settlement and Transfer of Plan Assets	After Settlement
Accumulated postretirement benefit obligation	$(267,000)	$ 80,000 [d]	$(187,000)
Plan assets at fair value	110,000	(100,000) [d]	10,000
Funded status	(157,000)	(20,000)	(177,000)
Unrecognized net gain	(39,575)	11,872 [e]	(27,703)
Unrecognized prior service cost	0		0
Unrecognized transition obligation	0		0
Accrued postretirement benefit cost	$(196,575)	$ (8,128)	$(204,703)

[d] The accumulated postretirement benefit obligation for the employees hired by the purchaser is determined to be $80,000 and is settled when Company S transfers plan assets of an equal amount to the purchaser. In connection with the purchase agreement, Company S transfers an additional $20,000 of plan assets.

[e] Represents a pro rata amount of the maximum gain based on the relationship of the accumulated postretirement benefit obligation settled to the total accumulated postretirement benefit obligation ($80,000 / $267,000 or 30%). The maximum gain is measured as the unrecognized net gain subsequent to transition plus any unrecognized transition asset ($39,575 + $0 = $39,575). The settlement gain is, therefore, 30% of $39,575, or $11,872; recognition of that gain is subject to first reducing any remaining unrecognized transition obligation. As there is no remaining unrecognized transition obligation (the remainder was recognized in connection with the curtailment), the gain of $11,872 is recognized together with the excess $20,000 transfer of plan assets as part of the net gain from the sale (paragraphs 92 and 93).

506. The sum of the effects related to postretirement benefits resulting from the sale is a loss of $236,128, the components of which are as follows:

Curtailment loss (paragraph 504)	$228,000
Settlement gain and loss from transfer of plan assets (paragraph 505)	8,128
Effects of sale	$236,128

Illustration 11—Accounting for the Effects of an Offer of Special Termination Benefits

507. The measurement of the effects of an offer of special termination benefits pursuant to paragraphs 101 and 102 and the accounting for the related curtailment are illustrated in the following paragraphs.

508. On January 16, 1995, Company T offers for a short period of time (until January 30, 1995) special benefits to its employees who elect voluntary termination of employment during that period (special termination benefits). As part of the offer, employees who voluntarily terminate will be credited with an additional five years of service and five years of age to determine eligibility for postretirement health care benefits. Employees are normally eligible for those benefits upon attaining age 55 and rendering at least 20 years of service.

509. On January 30, 1995, employees representing 18 percent of the work force accept the offer of special termination benefits. For those employees, the accumulated postretirement benefit obligation attributed to prior service periods based on their previously expected retirement dates (without consideration of the special offer) is $280,000. If those employees were assumed to terminate (retire) immediately upon attaining full eligibility for benefits (age 55 with 20 years of service), the accumulated postretirement benefit obligation for those employees would be $450,000. The accumulated postretirement benefit obligation for those employees after they accept the offer of the special termination benefits (full eligibility date accelerated, benefit coverage begins immediately) is $630,000.

510. The *remaining years of expected service* associated with the terminated employees who were plan participants at the date of transition is 24 percent of the remaining years of service of all plan participants at the date of transition. In addition, the portion of the unrecognized prior service cost arising from a prior plan amendment associated with the *remaining years of service prior to full eligibility* that are no longer expected to be rendered by the terminated employees is $25,000.

511. Pursuant to paragraph 99, if the sum of the effects resulting from a curtailment is a net loss, it shall be recognized in income when it is probable that a curtailment will occur and the effects are reasonably estimable. In this illustration, the effects resulting from the curtailment are not reasonably estimable until January 30, 1995, the acceptance date of the offer of special termination benefits. Consequently, at January 30, 1995, the employer recognizes a loss of $453,400 that includes the cost of the special termination benefits ($180,000) and the net loss from the curtailment ($273,400) determined as follows:

	January 30, 1995			
	Before Employee Terminations	**Before Termination Benefits**	**Special Effect of Curtailment**	**After Employee Terminations**
Accumulated postretirement benefit obligation:				
Employees accepting offer	$(280,000)	$(180,000) [a]	$(170,000) [b]	$ (630,000)
Other employees	(633,000)	—		(633,000)
	(913,000)	(180,000)	(170,000)	(1,263,000)
Plan assets at fair value	141,000			141,000
Funded status	(772,000)	(180,000)	(170,000)	(1,122,000)
Unrecognized net gain	(88,000)		88,000 [b]	0
Unrecognized prior service cost	148,500		(25,000) [c]	123,500
Unrecognized transition obligation	693,333	—	(166,400) [c]	526,933
Accrued postretirement benefit cost	$ (18,167)	$(180,000)	$(273,400)	$ (471,567)

[a] The loss from acceptance of the special termination benefits is $180,000 ($450,000 - $630,000), representing the difference between (1) the accumulated postretirement benefit obligation measured assuming that active plan participants not yet fully eligible for benefits would terminate employment at their full eligibility date and that fully eligible plan participants would retire immediately and (2) the accumulated postretirement benefit obligation reflecting the special termination benefits (paragraph 102).

[b] The increase in the accumulated postretirement benefit obligation as a result of the employees (fully eligible plan participants and other active plan participants not yet fully eligible for benefits) retiring at a date earlier than expected is a loss of $170,000 ($280,000 - $450,000). That amount is reduced by the unrecognized net gain of $88,000 (paragraph 98(b)) as part of the accounting for the curtailment.

[c] Additional effects of the curtailment are (1) the reduction of $25,000 in the unrecognized prior service cost (arising from a prior plan amendment) associated with the remaining years of service prior to full eligibility that are no longer expected to be rendered by the terminated employees and (2) the reduction of $166,400 in the unrecognized transition obligation associated with remaining years of service no longer expected to be rendered--measured as 24% (reduction in the remaining years of expected service associated with those employees affected by the early retirement who were plan participants at the date of transition) of the unrecognized transition obligation of $693,333 (paragraph 97).

Appendix D: BACKGROUND INFORMATION

512. In 1979, the Board added other postemployment benefits to its project on employers' accounting for pensions. The Board was concerned about the lack of information in financial statements about the cost of and obligation for other postemployment benefits. Evidence suggested that most large employers, as well as many smaller ones, provided health care and life insurance benefits to their retirees and were accounting for those benefits on a pay-as-you-go (cash) basis. Existing accounting pronouncements did not cover postretirement benefits provided outside a pension plan.

513. Other postemployment benefits were first considered in a 1981 FASB Discussion Memorandum, *Employers' Accounting for Pensions and Other Postemployment Benefits*. In its 1982 Preliminary Views, *Employers' Accounting for Pensions and Other Postemployment Benefits*, the Board tentatively concluded that the cost of postemployment health care and life insurance provided to retirees should be accrued during the service lives of the employees expected to receive benefits under those plans. The Board did not consider the cash basis and terminal accrual (accrual at retirement) methods to be acceptable methods for recognizing the cost of those benefits.

514. The Board based its tentative conclusion on its view that an employer has an obligation for promised postretirement benefits to the extent that future payments are probable and the service required of retirees and future retirees in exchange for those benefits has been rendered. That view led to the conclusion that postemployment benefits are a form of deferred compensation. Those views were reiterated in a 1983 FASB Discussion Memorandum, *Employers' Accounting for Pensions and Other Postemployment Benefits*, that addressed additional issues not raised in the 1981 Discussion Memorandum. However, in considering comments on that second Discussion Memorandum, the Board concluded that the accounting issues related to other postemployment benefits were being overshadowed by pension issues.

515. In February 1984, the Board concluded that it should address employers' accounting for postemployment benefits other than pensions as a separate project. As an interim measure, in 1984 the Board issued FASB Statement No. 81, *Disclosure of Postretirement Health Care and Life Insurance Benefits*. In April 1987, FASB Technical Bulletin No. 87-1, *Accounting for a Change in Method of Accounting for Certain Postretirement Benefits*, was issued to provide temporary guidance to employers making a voluntary change in their method of accounting for postretirement health care benefits and postretirement life insurance benefits provided outside a pension plan.

516. A task force was appointed in December 1986. Employers' accounting for postretirement benefits was addressed at 29 public Board meetings and 3 public task force meetings between

February 1987 and October 1988. In February 1989, the Board issued an Exposure Draft, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. The Exposure Draft proposed standards of financial accounting and reporting for an employer that offers postretirement benefits other than pensions to its employees. Twenty-five companies participated in a field test of the Exposure Draft that was sponsored by the Financial Executives Research Foundation.

517. The Board received more than 475 comment letters in response to the Exposure Draft. Public hearings on the Exposure Draft were conducted in October and November 1989. Sixty-two organizations and individuals presented their views at the 5 days of hearings. Based on the information received in the comment letters and at the public hearings, the Board reconsidered its proposals in the Exposure Draft at 28 public Board meetings during the remainder of 1989 and 1990. The task force met at a public meeting in June 1990 to discuss the Board's tentative conclusions on employers' accounting for postretirement benefits. Appendix A discusses the basis for the Board's conclusions, including reasons for changes made to the provisions of the 1989 Exposure Draft.

Appendix E: GLOSSARY

518. This appendix contains definitions of certain terms used in accounting for postretirement benefits.

Accumulated postretirement benefit obligation

The actuarial present value of benefits attributed to employee service rendered to a particular date. Prior to an employee's full eligibility date, the accumulated postretirement benefit obligation as of a particular date for an employee is the portion of the expected postretirement benefit obligation attributed to that employee's service rendered to that date; on and after the full eligibility date, the accumulated and expected postretirement benefit obligations for an employee are the same.

Active plan participant

Any active employee who has rendered service during the credited service period and is expected to receive benefits, including benefits to or for any beneficiaries and covered dependents, under the postretirement benefit plan. Also refer to **Plan participant.**

Actual return on plan assets (component of net periodic postretirement benefit cost)

The change in the fair value of the plan's assets for a period including the decrease due to expenses incurred during the period (such as income tax expense incurred by the fund, if applicable), adjusted for contributions and benefit payments during the period.

Actuarial present value

The value, as of a specified date, of an amount or series of amounts payable or receivable thereafter, with each amount adjusted to reflect (a) the time value of money (through discounts for interest) and (b) the probability of payment (for example, by means of decrements for events such as death, disability, or withdrawal) between the specified date and the expected date of payment.

Amortization

Usually refers to the process of reducing a recognized liability systematically by recognizing revenues or of reducing a recognized asset systematically by recognizing expenses or costs. In accounting for postretirement benefits, amortization is also used to refer to the systematic recognition in net periodic postretirement benefit cost over several periods of previously unrecognized amounts, including unrecognized prior service cost, unrecognized net gain or loss, and any unrecognized transition obligation or asset.

Assumed per capita claims cost (by age)

The annual per capita cost, for periods after the measurement date, of providing the

postretirement health care benefits covered by the plan from the earliest age at which an individual could begin to receive benefits under the plan through the remainder of the individual's life or the covered period, if shorter. To determine the assumed per capita claims cost, the per capita claims cost by age based on historical claims costs is adjusted for assumed health care cost trend rates. The resulting assumed per capita claims cost by age reflects expected future costs and is applied with the plan demographics to determine the amount and timing of future gross eligible charges. Also refer to **Gross eligible charges** and **Per capita claims cost by age.**

Assumptions

Estimates of the occurrence of future events affecting postretirement benefit costs, such as turnover, retirement age, mortality, dependency status, per capita claims costs by age, health care cost trend rates, levels of Medicare and other health care providers' reimbursements, and discount rates to reflect the time value of money.

Attribution

The process of assigning postretirement benefit cost to periods of employee service.

Attribution period

The period of an employee's service to which the expected postretirement benefit obligation for that employee is assigned. The beginning of the attribution period is the employee's date of hire unless the plan's benefit formula grants credit only for service from a later date, in which case the beginning of the attribution period is generally the beginning of that credited service period. The end of the attribution period is the full eligibility date. Within the attribution period, an equal amount of the expected postretirement benefit obligation is attributed to each year of service unless the plan's benefit formula attributes a disproportionate share of the expected postretirement benefit obligation to employees' early years of service. In that case, benefits are attributed in accordance with the plan's benefit formula. Also refer to **Credited service period.**

Benefit formula

The basis for determining benefits to which participants may be entitled under a postretirement benefit plan. A plan's benefit formula specifies the years of service to be rendered, age to be attained while in service, or a combination of both that must be met for an employee to be eligible to receive benefits under the plan. A plan's benefit formula may also define the beginning of the credited service period and the benefits earned for specific periods of service.

Benefits

The monetary or in-kind benefits or benefit coverage to which participants may be entitled under a postretirement benefit plan, including health care benefits, life insurance not provided through a pension plan, and legal, educational, and advisory services.

Captive insurer
An insurance company that does business primarily with related entities.

Contributory plan
A plan under which retirees or active employees contribute part of the cost. In some contributory plans, retirees or active employees wishing to be covered must contribute; in other contributory plans, participants' contributions result in increased benefits.

Cost-sharing (provisions of the plan)
The provisions of the postretirement benefit plan that describe how the costs of the covered benefits are to be shared between the employer and the plan participants. Cost-sharing provisions describe retired and active plan participants' contributions toward their postretirement health care benefits, deductibles, coinsurance, out-of-pocket limitations on participant costs, caps on employer costs, and so forth.

Credited service period
Employee service period for which benefits are earned pursuant to the terms of the plan. The beginning of the credited service period may be the date of hire or a later date. For example, a plan may provide benefits only for service rendered after a specified age. Service beyond the end of the credited service period does not earn any additional benefits under the plan. Also refer to **Attribution period.**

Curtailment (of a postretirement benefit plan)
An event that significantly reduces the expected years of future service of active plan participants or eliminates the accrual of defined benefits for some or all of the future services of a significant number of active plan participants.

Defined benefit postretirement plan
A plan that defines postretirement benefits in terms of monetary amounts (for example, $100,000 of life insurance) or benefit coverage to be provided (for example, up to $200 per day for hospitalization, 80 percent of the cost of specified surgical procedures, and so forth). Any postretirement benefit plan that is not a defined contribution postretirement plan is, for purposes of this Statement, a defined benefit postretirement plan.

Defined contribution postretirement plan
A plan that provides postretirement benefits in return for services rendered, provides an individual account for each plan participant, and specifies how contributions to the individual's account are to be determined rather than specifies the amount of benefits the individual is to receive. Under a defined contribution postretirement plan, the benefits a plan participant will receive depend solely on the amount contributed to the plan participant's account, the returns earned on investments of those contributions, and the forfeitures of other plan participants' benefits that may be allocated to that plan participant's account.

Dependency status
The status of a current or former employee having dependents (for example, a spouse or other relatives) who are expected to receive benefits under a postretirement benefit plan that provides dependent coverage.

Discount rates
The rates used to reflect the time value of money. Discount rates are used in determining the present value as of the measurement date of future cash flows currently expected to be required to satisfy the postretirement benefit obligation. Also refer to **Actuarial present value.**

Expected long-term rate of return on plan assets
An assumption about the rate of return on plan assets reflecting the average rate of earnings expected on existing plan assets and expected contributions to the plan during the period.

Expected postretirement benefit obligation
The actuarial present value as of a particular date of the benefits expected to be paid to or for an employee, the employee's beneficiaries, and any covered dependents pursuant to the terms of the postretirement benefit plan.

Expected return on plan assets
An amount calculated as a basis for determining the extent of delayed recognition of the effects of changes in the fair value of plan assets. The expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets.

Explicit (approach to) assumptions
An approach under which each significant assumption used reflects the best estimate of the plan's future experience solely with respect to that assumption.

Fair value
The amount that a plan could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than a forced or liquidation sale.

Full eligibility (for benefits)
The status of an employee having reached the employee's full eligibility date. Full eligibility for benefits is achieved by meeting specified age, service, or age and service requirements of the postretirement benefit plan. Also refer to **Full eligibility date.**

Full eligibility date

The date at which an employee has rendered all of the service necessary to have earned the right to receive all of the benefits expected to be received by that employee (including any beneficiaries and dependents expected to receive benefits). Determination of the full eligibility date is affected by plan terms that provide incremental benefits expected to be received by or on behalf of an employee for additional years of service, unless those incremental benefits are trivial. Determination of the full eligibility date is *not* affected by plan terms that define when benefit payments commence or by an employee's current dependency status.

Fully eligible plan participants

Collectively, that group of former employees (including retirees) and active employees who have rendered service to or beyond their full eligibility date and who are expected to receive benefits under the plan, including benefits to their beneficiaries and covered dependents.

Funding policy

The program regarding the amounts and timing of contributions by the employer(s), plan participants, and any other sources to provide the benefits a postretirement benefit plan specifies.

Gain or loss

A change in the value of either the accumulated postretirement benefit obligation or the plan assets resulting from experience different from that assumed or from a change in an actuarial assumption, or the consequence of a decision to temporarily deviate from the substantive plan. Also refer to **Unrecognized net gain or loss.**

Gain or loss component (of net periodic postretirement benefit cost)

The sum of (a) the difference between the actual return on plan assets and the expected return on plan assets, (b) any gain or loss immediately recognized or the amortization of the unrecognized net gain or loss from previous periods, and (c) any amount immediately recognized as a gain or loss pursuant to a decision to temporarily deviate from the substantive plan. The gain or loss component is generally the net effect of delayed recognition of gains and losses (the net change in the unrecognized net gain or loss) except that it does not include changes in the accumulated postretirement benefit obligation occurring during the period and deferred for later recognition.

Gross eligible charges

The cost of providing the postretirement health care benefits covered by the plan to a plan participant, before adjusting for expected reimbursements from Medicare and other providers of health care benefits and for the effects of the cost-sharing provisions of the plan.

Health care cost trend rates

An assumption about the annual rate(s) of change in the cost of health care benefits currently provided by the postretirement benefit plan, due to factors other than changes in the composition of the plan population by age and dependency status, for each year from the measurement date until the end of the period in which benefits are expected to be paid. The health care cost trend rates implicitly consider estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of the plan participants. Differing types of services, such as hospital care and dental care, may have different trend rates.

Incurred claims cost (by age)

The cost of providing the postretirement health care benefits covered by the plan to a plan participant, after adjusting for reimbursements from Medicare and other providers of health care benefits and for deductibles, coinsurance provisions, and other specific claims costs borne by the retiree. Also refer to **Net incurred claims cost (by age).**

Insurance contract

A contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. An insurance contract is irrevocable and involves the transfer of significant risk from the employer (or the plan) to the insurance company. If the insurance company providing the contract is a captive insurer, or if there is any reasonable doubt that the insurance company will meet its obligations under the contract, the contract is not an insurance contract for purposes of this Statement.

Interest cost (component of net periodic postretirement benefit cost)

The accrual of interest on the accumulated postretirement benefit obligation due to the passage of time.

Market-related value of plan assets

A balance used to calculate the expected return on plan assets. Market-related value can be either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. Different methods of calculating market-related value may be used for different classes of plan assets, but the manner of determining market-related value shall be applied consistently from year to year for each class of plan asset.

Measurement date

The date of the financial statements or, if used consistently from year to year, a date not more than three months prior to that date, as of which plan assets and obligations are measured.

Medicare reimbursement rates
The health care cost reimbursements expected to be received by retirees through Medicare as mandated by currently enacted legislation. Medicare reimbursement rates vary by the type of benefits provided.

Multiemployer plan
A postretirement benefit plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. A characteristic of multiemployer plans is that assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. A multiemployer plan is usually administered by a board of trustees composed of management and labor representatives and may also be referred to as a "joint trust" or "union plan." Generally, many employers participate in a multiemployer plan, and an employer may participate in more than one plan. The employers participating in multiemployer plans usually have a common industry bond, but for some plans the employers are in different industries and the labor union may be their only common bond.

Multiple-employer plan
A postretirement benefit plan maintained by more than one employer but not treated as a multiemployer plan. Multiple-employer plans are generally not collectively bargained and are intended to allow participating employers, commonly in the same industry, to pool their plan assets for investment purposes and to reduce the cost of plan administration. A multiple-employer plan maintains separate accounts for each employer so that contributions provide benefits only for employees of the contributing employer. Multiple-employer plans may have features that allow participating employers to have different benefit formulas, with the employer's contributions to the plan based on the benefit formula selected by the employer.

Net incurred claims cost (by age)
The employer's share of the cost of providing the postretirement health care benefits covered by the plan to a plan participant; incurred claims cost net of retiree contributions. Also refer to **Incurred claims cost (by age).**

Net periodic postretirement benefit cost
The amount recognized in an employer's financial statements as the cost of a postretirement benefit plan for a period. Components of net periodic postretirement benefit cost include service cost, interest cost, actual return on plan assets, gain or loss, amortization of unrecognized prior service cost, and amortization of the unrecognized transition obligation or asset.

Nonparticipating insurance contract
An insurance contract that does not provide for the purchaser to participate in the investment performance or in other experience of the insurance company. Also refer to **Insurance contract.**

Nonpublic enterprise
An enterprise other than one (a) whose debt or equity securities are traded in a public market, either on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), or (b) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

Participating insurance contract
An insurance contract that provides for the purchaser to participate in the investment performance and possibly other experience (for example, morbidity experience) of the insurance company. Also refer to **Insurance contract.**

Participation right
A purchaser's right under a participating insurance contract to receive future dividends or retroactive rate credits from the insurance company.

Pay-related plan
A plan that has a benefit formula that bases benefits or benefit coverage on compensation, such as a final-pay or career-average-pay plan.

Per capita claims cost by age
The current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Also refer to **Assumed per capita claims cost (by age).**

Plan
An arrangement that is mutually understood by an employer and its employees, whereby an employer undertakes to provide its employees with benefits after they retire in exchange for their services over a specified period of time, upon attaining a specified age while in service, or a combination of both. A plan may be written or it may be implied by a well-defined, although perhaps unwritten, practice of paying postretirement benefits or from oral representations made to current or former employees. Also refer to **Substantive plan.**

Plan amendment
A change in the existing terms of a plan. A plan amendment may increase or decrease benefits, including those attributed to years of service already rendered.

Plan assets

Assets—usually stocks, bonds, and other investments—that have been segregated and restricted (usually in a trust) to provide for postretirement benefits. The amount of plan assets includes amounts contributed by the employer (and by plan participants for a contributory plan) and amounts earned from investing the contributions, less benefits, income taxes, and other expenses incurred. Plan assets ordinarily cannot be withdrawn by the employer except under certain circumstances when a plan has assets in excess of obligations and the employer has taken certain steps to satisfy existing obligations. Assets not segregated in a trust, or otherwise effectively restricted, so that they cannot be used by the employer for other purposes are not plan assets, even though it may be intended that those assets be used to provide postretirement benefits. Amounts accrued by the employer as net periodic postretirement benefit cost but not yet paid to the plan are not plan assets. Securities of the employer held by the plan are includable in plan assets provided they are transferable. If a plan has liabilities other than for benefits, those nonbenefit obligations are considered as reductions of plan assets.

Plan demographics

The characteristics of the plan population including geographical distribution, age, sex, and marital status.

Plan participant

Any employee or former employee who has rendered service in the credited service period *and is expected to receive employer-provided benefits* under the postretirement benefit plan, including benefits to or for any beneficiaries and covered dependents. Also refer to **Active plan participant.**

Plan termination

An event in which the postretirement benefit plan ceases to exist and all benefits are settled by the purchase of insurance contracts or by other means. The plan may or may not be replaced by another plan. A plan termination with a replacement plan may or may not be in substance a plan termination for accounting purposes.

Postretirement benefit fund

Assets accumulated in the hands of a funding agency for the sole purpose of paying postretirement benefits when the claims are incurred or benefits are due. Those assets may or may not qualify as plan assets. Also refer to **Plan assets.**

Postretirement benefit plan

Refer to **Plan.**

Postretirement benefits

All forms of benefits, other than retirement income, provided by an employer to retirees. Those benefits may be defined in terms of specified benefits, such as health care, tuition

assistance, or legal services, that are provided to retirees as the need for those benefits arises, such as certain health care benefits, or they may be defined in terms of monetary amounts that become payable on the occurrence of a specified event, such as life insurance benefits.

Postretirement benefits other than pensions

Refer to **Postretirement benefits.**

Postretirement health care benefits

A form of postretirement benefit provided by an employer to retirees for defined health care services or coverage of defined health care costs, such as hospital and medical coverage, dental benefits, and eye care.

Prior service cost

The cost of benefit improvements attributable to plan participants' prior service pursuant to a plan amendment or a plan initiation that provides benefits in exchange for plan participants' prior service. Also refer to **Unrecognized prior service cost.**

Retirees

Collectively, that group of plan participants that includes retired employees, their beneficiaries, and covered dependents.

Service cost (component of net periodic postretirement benefit cost)

The portion of the expected postretirement benefit obligation attributed to employee service during a period.

Settlement (of a postretirement benefit plan)

An irrevocable action that relieves the employer (or the plan) of primary responsibility for a postretirement benefit obligation and eliminates significant risks related to the obligation and the assets used to effect the settlement. Examples of transactions that constitute a settlement include (a) making lump-sum cash payments to plan participants in exchange for their rights to receive specified postretirement benefits and (b) purchasing nonparticipating insurance contracts for the accumulated postretirement benefit obligation for some or all of the plan participants.

Single-employer plan

A postretirement benefit plan that is maintained by one employer. The term also may be used to describe a plan that is maintained by related parties such as a parent and its subsidiaries.

Substantive plan

The terms of the postretirement benefit plan as understood by an employer that provides postretirement benefits and the employees who render services in exchange for those benefits. The substantive plan is the basis for the accounting for that exchange transaction. In some situations an employer's cost-sharing policy, as evidenced by past practice or by communication of intended changes to a plan's cost-sharing provisions, or a past practice of regular increases in certain monetary benefits may indicate that the substantive plan differs from the extant written plan.

Termination benefits

Benefits provided by an employer to employees in connection with their termination of employment. They may be either special termination benefits offered only for a short period of time or contractual benefits required by the terms of a plan only if a specified event, such as a plant closing, occurs.

Transition asset

The unrecognized amount, as of the date this Statement is initially applied, of (a) the fair value of plan assets plus any recognized accrued postretirement benefit cost or less any recognized prepaid postretirement benefit cost in excess of (b) the accumulated postretirement benefit obligation.

Transition obligation

The unrecognized amount, as of the date this Statement is initially applied, of (a) the accumulated postretirement benefit obligation in excess of (b) the fair value of plan assets plus any recognized accrued postretirement benefit cost or less any recognized prepaid postretirement benefit cost.

Unfunded accumulated postretirement benefit obligation

The accumulated postretirement benefit obligation in excess of the fair value of plan assets.

Unrecognized net gain or loss

The cumulative net gain or loss that has not been recognized as a part of net periodic postretirement benefit cost or as a part of the accounting for the effects of a settlement or a curtailment. Also refer to **Gain or loss.**

Unrecognized prior service cost

The portion of prior service cost that has not been recognized as a part of net periodic postretirement benefit cost, as a reduction of the effects of a negative plan amendment, or as a part of the accounting for the effects of a curtailment.

Unrecognized transition asset

The portion of the transition asset that has not been recognized either immediately as the effect of a change in accounting or on a delayed basis as a part of net periodic postretirement benefit cost, as an offset to certain losses, or as a part of accounting for the effects of a settlement or a curtailment.

Unrecognized transition obligation

The portion of the transition obligation that has not been recognized either immediately as the effect of a change in accounting or on a delayed basis as a part of net periodic postretirement benefit cost, as an offset to certain gains, or as a part of accounting for the effects of a settlement or a curtailment.

Footnotes

FAS106, Footnote 1--Words that appear in the glossary are set in **boldface type** the first time they appear.

FAS106, Footnote 2--The accounting for benefits paid after employment but before retirement (for example, layoff benefits) is a separate phase of the Board's project on accounting for postemployment benefits other than pensions. The fact that this Statement does not apply to those benefits should not be construed as discouraging the use of accrual accounting for those benefits.

FAS106, Footnote 3--This Statement uses the term *net periodic postretirement benefit cost* rather than *net postretirement benefit expense* because part of the cost recognized in a period may be capitalized along with other costs as part of an asset such as inventory.

FAS106, Footnote 4--The determination of disability benefits to be accrued pursuant to this Statement is based on the terms of the postretirement benefit plan defining when a disabled employee is entitled to postretirement benefits.

FAS106, Footnote 5--Postretirement health care benefits are likely to be the most significant in terms of cost and prevalence, and certain of the issues that arise in measuring those benefits are unique. Therefore, much of the language of this Statement focuses on postretirement health care plans. Nevertheless, this Statement applies equally to all postretirement benefits.

FAS106, Footnote 6--Two Special Reports prepared by the FASB staff, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions,* and *A Guide to Implementation of Statement 88 on Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* provide accounting guidance on implementation questions raised in connection with Statements 87 and 88. Many of the provisions in this Statement are the same as or are similar to the provisions of Statements 87 and 88. Consequently, the guidance provided in those Special Reports should be useful in understanding and implementing many of the provisions of this Statement.

FAS106, Footnote 7--The accumulated postretirement benefit obligation generally reflects a ratable allocation of expected future benefits to employee service already rendered in the attribution period; the accumulated benefit obligation under Statement 87 generally reflects the future benefits allocated to employee service in accordance with the benefit formula. In addition, unlike Statement 87, this Statement implicitly considers salary progression in the measurement of the accumulated postretirement benefit obligation of a pay-related plan.

FAS106, Footnote 8--The interest cost component of postretirement benefit cost shall not be considered interest for purposes of applying FASB Statement No. 34, *Capitalization of Interest Cost.*

FAS106, Footnote 9--For example, a past practice of increasing retiree contributions annually based on a specified index or formula may appear to indicate that the substantive plan includes a determinable indexing of the retirees' annual contributions to the plan. However, if that past practice of increasing retiree contributions is accompanied by identifiable offsetting changes in other benefits or compensation, those offsetting changes would indicate that the substantive plan incorporates only the *current* cost-sharing provisions. Therefore, future increases or reductions of those cost-sharing provisions should not be incorporated in measuring the expected postretirement benefit obligation.

FAS106, Footnote 10--By definition, an employer does not have the unilateral right to change a collectively bargained plan. Therefore, if the postretirement benefits are the subject of collective bargaining, the extant written plan shall be the substantive plan unless the employer can demonstrate its ability to maintain (a) a consistent level of cost sharing or (b) a consistent practice of increasing or reducing its share of the cost of the covered benefits in past negotiations without making offsetting changes in other benefits or compensation of the affected plan participants or by incurring other significant costs to maintain that cost-sharing arrangement.

FAS106, Footnote 11--For purposes of this Statement, a plan that promises to provide retirees a benefit in kind, such as health care benefits, rather than a defined dollar amount of benefit, is considered to be a plan that specifies automatic benefit changes. (The assumed rate of change in the future cost of providing health care benefits, the assumed health care cost trend rate, is discussed in paragraph 39.) Because automatic benefit changes are not conditional on employees rendering additional years of service, the full eligibility date is not affected by those changes. A benefit in kind includes the direct rendering of services, the payment directly to others who provide the services, or the reimbursement of the retiree's payment for those services.

FAS106, Footnote 12--For pay-related plans, salary progression is included in measuring the expected postretirement benefit obligation. For example, a postretirement health care plan may define the deductible amount or copayment, or a postretirement life insurance plan may define the amount of death benefit, based on the employee's average or final level of annual compensation.

FAS106, Footnote 13--For example, a plan may define the maximum benefit to be provided under the plan (a fixed cap). In measuring the expected postretirement benefit obligation under that plan, the projected benefit payments would be limited to that cap. For a plan that automatically adjusts the maximum benefit to be provided under the plan for the effects of inflation (an adjustable cap), the expected postretirement benefit obligation would be measured based on adjustments to that cap consistent with the assumed inflation rate reflected in other inflation-related assumptions.

FAS106, Footnote 14--In some cases, retiree contributions are established based on the average per capita cost of benefit coverage under an employer's health care plan that provides coverage to both active employees and retirees. However, the medical cost of the retirees may cause the average per capita cost of benefit coverage under the plan to be higher than it would be if only active employees were covered by the plan. In that case, the employer has a postretirement benefit obligation for the portion of the expected future cost of the retiree health care benefits that are not recovered through retiree contributions, Medicare, or other providers of health care benefits.

FAS106, Footnote 15--If significant, the internal and external costs directly associated with administering the postretirement benefit plan also should be accrued as a component of assumed per capita claims cost.

FAS106, Footnote 16--An assumption about changes in the health status of plan participants considers, for example, the probability that certain claims costs will be incurred based on expectations of future events, such as the likelihood that some retirees will incur claims requiring technology currently being developed or that historical claims experience for certain medical needs may be reduced as a result of participation in a wellness program.

FAS106, Footnote 17--For example, a retiree's spouse also may be covered by the spouse's present (or former) employer's health care plan. In that case, the spouse's employer (or former employer) may provide either primary or secondary postretirement health care benefits to the retiree's spouse or dependents.

FAS106, Footnote 18--Amortization of the unrecognized transition obligation or asset will be adjusted prospectively to recognize the effects of (a) a negative plan amendment pursuant to paragraph 55, (b) a constraint on immediate recognition of a net gain or loss pursuant to paragraph 60, (c) settlement accounting pursuant to paragraphs 92 and 93, (d) plan curtailment accounting pursuant to paragraphs 97-99, and (e) a constraint on delayed recognition of the unrecognized transition obligation pursuant to paragraph 112.

FAS106, Footnote 19--The amortization must always reduce the beginning-of-the-year balance. Amortization of an unrecognized net gain results in a decrease in net periodic postretirement benefit cost; amortization of an unrecognized net loss results in an increase in net periodic postretirement benefit cost.

FAS106, Footnote 20--For example, the terms of a substantive postretirement health care plan may provide that any shortfall resulting from current year benefit payments in excess of the employer's stated share of incurred claims cost and retiree contributions for that year is to be recovered from increased retiree contributions in the subsequent year. The employer may subsequently determine that increasing retiree contributions for the shortfall in the prior year would be onerous and make a decision to bear the cost of the shortfall for that year. The

employer's decision to bear the shortfall represents a change in intent and the resulting loss shall be recognized immediately. Future decisions by the employer to continue to bear the shortfall suggest an amendment of the substantive plan that should be accounted for as described in paragraphs 50-55.

FAS106, Footnote 21--For an indication of factors to be considered in determining the discount rate, refer to paragraphs 13 and 14 of APB Opinion No. 21, *Interest on Receivables and Payables*. If significant, the fair value of an investment shall reflect the brokerage commissions and other costs normally incurred in a sale.

FAS106, Footnote 22--If the insurance company providing the contract does business primarily with the employer and related parties (a **captive insurer**) or if there is any reasonable doubt that the insurance company will meet its obligations under the contract, the contract is not an insurance contract for purposes of this Statement.

FAS106, Footnote 23--The net total of other components is generally the net effect during the period of certain delayed recognition provisions of this Statement. That net total includes:

a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on plan assets)
b. Amortization of unrecognized prior service cost
c. Amortization of the net gain or loss from earlier periods
d. Any gain or loss recognized due to a temporary deviation from the substantive plan (paragraph 61).

FAS106, Footnote 24--If an insurance contract is purchased from an insurance company controlled by the employer, the purchase of the contract does not constitute a settlement.

FAS106, Footnote 25--As discussed in paragraph 112, in measuring the gain or loss subject to recognition in income when a postretirement benefit obligation is settled, it shall first be determined whether recognition of an additional amount of any unrecognized transition obligation is required.

FAS106, Footnote 26--Because the plan is the unit of accounting, the determination of the effects of a settlement considers only the unrecognized net gain or loss and unrecognized transition obligation or asset related to the plan for which all or a portion of the accumulated postretirement benefit obligation is being settled.

FAS106, Footnote 27--For the following types of settlements, the cost of the settlement is:

a. For a cash settlement, the amount of cash paid to plan participants
b. For a settlement using nonparticipating insurance contracts, the cost of the contracts

c. For a settlement using participating insurance contracts, the cost of the contracts less the amount attributed to participation rights. (Refer to paragraphs 68 and 69.)

FAS106, Footnote 28--A curtailment also may result from terminating the accrual of additional benefits for the future services of a significant number of employees. The loss in that situation is (a) a proportionate amount of the remaining unrecognized prior service cost based on the portion of the remaining expected years of service in the amortization period that originally was attributable to those employees who were plan participants at the date of the plan amendment and whose future accrual of benefits has been terminated and (b) a proportionate amount of the remaining unrecognized transition obligation based on the portion of the remaining years of service of all participants active at the date of transition that originally was attributable to the remaining expected future years of service of the employees whose future accrual of benefits has been terminated.

FAS106, Footnote 29--Increases in the accumulated postretirement benefit obligation that reflect termination benefits are excluded from the scope of this paragraph. (Refer to paragraphs 101 and 102.)

FAS106, Footnote 30--For example, an employer may establish individual postretirement health care accounts for each employee, each year contributing a specified amount to each active employee's account. The balance in each employee's account may be used by that employee after the employee's retirement to purchase health care insurance or for other health care benefits. Rather than providing for defined health care benefits, the employer is providing a defined amount of money that may be used by retirees toward the payment of their health care costs.

FAS106, Footnote 31--The effect of the accounting change and the related income tax effect shall be presented in the statement of income between the captions "extraordinary items" and "net income." The per share information presented on the statement of income shall include the per share effect of the accounting change.

FAS106, Appendix A, Footnote 32--For example, an employer may promise to provide postretirement health care coverage to all employees who render 30 or more years of service. The employer may carry active employees who become disabled on active status so a disabled employee continues to accumulate credit toward postretirement benefits. Measurement of the expected postretirement benefit obligation should include an assumption that some employees who are expected to receive benefits under the postretirement benefit plan will become disabled and cease working prior to the date at which they otherwise would have been eligible for postretirement health care benefits. The measurement of the postretirement benefits expected to be paid to disabled employees would encompass only those benefits expected to be paid during the period following what otherwise would have been their full eligibility date; in this case, the date at which the employee would have completed 30 years of service. That amount is attributed to an employee's service to the date the disability is assumed to occur.

FAS106, Appendix A, Footnote 33--As used herein, *vested postretirement benefit obligation* refers to the actuarial present value as of a particular date of the benefits expected to be paid to or for retirees, former employees, and active employees assuming they terminated immediately, including benefits expected to be paid to or for beneficiaries and any covered dependents of those plan participants.

FAS106, Appendix A, Footnote 34--For example, the terms of the plan may state that retirees will receive an annual benefit that is equal to (a) 2.5 percent of covered benefits for each year of service through year 10, (b) 3.0 percent of covered benefits for each year of service in years 11-20, and (c) 3.5 percent of covered benefits for each year of service in years 21-30.

FAS106, Appendix A, Footnote 35--This Statement uses the term *vested benefits* in the accounting sense, not in the legal context. For accounting purposes, vesting refers to an employee's right to receive present or future benefits whether or not the employee remains in the service of the employer. The fact that the benefits do not commence until after the employee retires or that additional benefits may be earned by rendering additional service does not change the right to the benefits that have been earned and to which the employee would be entitled if the employee terminated.

FAS106, Appendix A, Footnote 36--For example, an employer may promise to provide postretirement health care coverage to all employees who retire from the company (terminate after meeting the age or service requirements that entitle an employee to immediate pension benefits); under the terms of the retirement plan, an employee may retire from the company early with 30 years of service or at the normal retirement age with less than 30 years of service. Consequently, for an employee hired at age 25 who renders 30 years of consecutive service, the employer has promised to provide postretirement benefit coverage upon that employee's termination (retirement) on or after rendering 30 years of service. Although that employee will render service beyond age 55, eligibility for the benefits is not conditional upon rendering additional service, and no incremental benefit is provided for doing so.

FAS106, Appendix A, Footnote 37--The cost of any related curtailment would be determined separately pursuant to paragraphs 97-99.